

Taxes Paid to Another State or Country

General Instructions

For assistance, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix(602) 255-3381
Tucson(520) 628-6421
Other Arizona areas1-800-352-4090
Form orders (602) 542-4260
Forms by FAX(602) 542-3756
Recorded Tax Information
Phoenix(602) 542-1991
Other Arizona areas1-800-845-8192
Hearing impaired TDD user
Phoenix(602) 542-4021
Other Arizona areas1-800-397-0256

Purpose of Form

Use Form 309 to figure your credit for taxes paid to Arizona and another state or country on the same income.

If claiming a credit for more than one state or country, make a separate computation for each state or country.

NOTE: *You must notify the department immediately if the other state or country credits or refunds taxes for which you have received an Arizona credit.*

Complete this form only if you meet the following.

1. You are filing a 1995 Arizona income tax return.
2. You are paying a **net** income tax to another qualified state or foreign country for 1995. For this credit, a net income tax is a tax which grants deductions or exemptions from gross income. A system of taxation which assesses taxes on gross income, gross receipts or gross dividends does not qualify for the credit. Payroll taxes withheld from income do not constitute a net income tax.

IMPORTANT: *Withholding is **not** a net income tax. Having tax withheld from your pay by Arizona and another state does not by itself qualify you for this credit.*

You may **not** claim this credit for the following.

1. Taxes withheld at the source on dividend or interest income from foreign investments.
2. Income taxes paid to any city or county.
3. Interest or penalties paid to another state or country.

Application of Credit

Claim this credit only if the income was subject to tax in both Arizona and the other state or country in the same tax year.

You cannot apply this credit against interest or penalties payable to Arizona.

NOTE: *You may use this credit only in the year incurred. If your credit is more than your 1995 Arizona income tax liability, you cannot carry the credit forward to the next year. You also cannot carry the credit back to a prior year.*

Arizona Resident

Arizona residents are allowed a credit against Arizona income taxes for net income taxes imposed by and paid to another state or country if the following apply.

1. The income taxed in Arizona is derived from sources within another state or country. This income is subject to a net income tax in the other state or country regardless of your residence.
2. The other state or country does not allow Arizona residents a credit for taxes imposed on income subject to

tax in both Arizona and the other state or country.

As an Arizona resident, returns filed with the following states qualify for the credit:

Alabama, Arkansas*, Colorado*, Connecticut*, Delaware*, Georgia, Hawaii, Idaho, Illinois, Iowa*, Kansas*, Kentucky, Louisiana, Maine*, Maryland, Massachusetts, Michigan, Minnesota*, Mississippi, Missouri*, Montana*, Nebraska*, New Jersey*, New Mexico*, New York*, North Carolina, North Dakota, Ohio*, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah*, Vermont*, West Virginia*, and Wisconsin.

* **Caution,** these states prorate nonresident tax liability. For more information, see the instructions for line 9.

NOTE: *This list is subject to change at any time.*

IMPORTANT: *As an Arizona resident, returns filed with the following states **DO NOT** qualify for the credit:*

Alaska, California, District of Columbia, Florida, Indiana, Nevada, New Hampshire, Oregon, South Dakota, Tennessee, Texas, Virginia, Washington and Wyoming.

Nonresident

A credit against Arizona income taxes is allowed for Arizona nonresidents who are not allowed a credit by their state or country of residence for taxes paid to Arizona if either:

1. The other state or country does not tax Arizona residents on income derived from sources within the other state or country.
2. The other state or country allows Arizona residents credit for taxes paid on income subject to tax by the other state or country and Arizona.

Arizona nonresidents who file resident returns with the following states qualify for the credit.

California, District of Columbia, Indiana, Oregon and Virginia.

NOTE: *This list is subject to change at any time.*

Part-Year Residents

For that part of the year you were a resident of Arizona, follow the instructions for residents.

For that part of the year you were an Arizona nonresident, follow the instructions for nonresidents.

Required Attachments

If you are claiming a credit for taxes paid to another state, you must attach a copy of the tax return filed to the other state.

If you are claiming a credit for taxes paid to a foreign country, attach the following information to your Arizona income tax return.

1. A copy of the tax return you filed to the foreign country.
2. A copy of the foreign law which imposes the tax.
3. In cases where English is not the official language of the foreign country, an English translation of all required documentation.
4. Where the tax is paid in a foreign currency, a statement substantiating the conversion rate on the date of payment.

Line-by-Line Instructions

Fill in your name(s) as shown on Arizona Form 140, Form 140PY, Form 140NR, or Form 140X. Enter your social security number and your spouse's social security number if applicable.

All returns, statements and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal identification

number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Part I - Computation of Income Subject to tax by Both Arizona and the Other State or Country During 1995

In order for income to be taxed by both Arizona and another state, two elements must exist. For an Arizona resident, the two elements are:

- (1) the same income must be taxed by both states; and
- (2) the income must have its source within the other state.

For a nonresident, the two elements are:

- (1) the same income must be taxed by both states; and
- (2) the income must have its source within Arizona.

Provide a breakdown of your income which is subject to tax in both Arizona and the other state.

In column (a), identify the income item, such as business income, partnership income, wages, etc. In column (b), enter the amount of income from that item taxable by Arizona which is also subject to tax in the other state or country. In column (c), enter the amount of income from that item taxable by the other state or country which is also subject to tax in Arizona.

Nonresidents or part-year residents must enter only the income included in both Arizona adjusted gross income and the adjusted gross income of the return filed with the other state.

Line 1 -

Combine the amounts in column (b). Enter the amount from Part I, line 1,

column (b) on Part II, line 3. Combine the amounts in column (c). Enter the amount from Part I, line 1, column (c), on Part II, line 8.

Part II - Computation of Other State or Country Tax Credit

Line 2 -

Enter your Arizona tax liability **less any credits**. However, do not reduce your Arizona tax liability by the other state tax credit.

For 1995, your Arizona tax liability **prior to tax credits** is found on:

- Form 140, line 27
- Form 140PY, line 27
- Form 140NR, line 27
- Form 140X, Line 18

If you are taking other tax credits, you must reduce your Arizona tax by the amount of those other tax credits.

Line 4 -

Enter your Arizona income subject to tax. This is the Arizona adjusted gross income excluding allowable exemptions for age 65 or over, blind, or dependents.

Use the appropriate worksheet below to figure your Arizona income subject to tax.

Worksheet for Arizona Residents

1. Enter the amount from Arizona Form 140, line 22. 1. _____
2. Enter the amounts from Arizona Form 140, lines 15, 16, and 17. 2. _____
3. Add the amount on lines 1 and 2. Enter the total here and on line 4 of Arizona Form 309. 3. _____

Worksheet for Arizona Part-Year Residents With No Arizona Source Income for the Period of the Year in Which You Were an Arizona Resident

1. Enter the amount from Arizona Form 140PY, line 22. 1. _____
2. Enter the amount from Arizona Form 140PY, Page 2, line D28. 2. _____
3. Add the amounts on lines 1 and 2. Enter the total here and on line 4 of Arizona Form 309. 3. _____

Part-Year Residents With Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident.

If you have Arizona source income for the period of the year in which you were an Arizona nonresident, you must separately determine the amount of Arizona adjusted gross income for the period in which you were a resident and the amount of Arizona adjusted gross income for the period in which you were a nonresident. These figures are not separately stated on any particular line on your Arizona Form 140PY.

Worksheet for Arizona Nonresidents

1. Enter the amount from Arizona Form 140NR, line 22. 1. _____
2. Enter the amount from Arizona Form 140NR, Page 2, line D25. 2. _____
3. Add the amounts on lines 1 and 2. Enter the total here and on line 4 of Arizona Form 309. 3. _____

Line 7 -

Do not include federal income taxes or any taxes paid to a city or county. Also, do not include any amount paid to the other state or foreign country for penalty or interest.

Line 9 -

Enter the income subject to tax in the other state or country. This is the adjusted gross income taxable to the other state or country calculated in accordance with Arizona law. For this credit, the adjusted gross income is the other state's or country's equivalent of Arizona adjusted gross income. Such income must include items of income and loss, but not exemptions and itemized or standard deductions.

NOTE: *You may not be able to take this amount from a specific line on the return filed to the other state or country. If you must determine this amount, attach a schedule.*

If you have questions concerning what amount to enter on line 9, call one of the help numbers listed at the beginning of these instructions.

Caution, the following states prorate nonresident tax liability:

Arkansas, Colorado, Connecticut, Delaware, Iowa, Kansas, Maine, Minnesota, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, Ohio, Utah, Vermont, and West Virginia.

Therefore, if you are computing a credit for one or more of the above states, see the example following line 12 instructions.

Line 12 -

Enter the lesser of line 6 or line 11. If this is the only state or country for which you are claiming a credit, also enter this amount on Arizona Form 301, line 6.

If you are claiming a credit for more than one state or country, make a separate computation for each. Enter the total from all Arizona Forms 309 on Arizona Form 301, line 6.

Example:

The following example will illustrate how to figure a credit for taxes paid to another state.

Facts:

Taxpayer A is a resident of Arizona. Taxpayer A derives income from a farm in State X. Taxpayer A files a nonresident return with State X to report the farm income derived from sources within State X.

During the tax year, Taxpayer A had the following income:

	Federal	Arizona	State X
Interest income	\$ 38,000	\$8,000	0
Dividend income	4,000	4,000	0
Farm income	16,000	16,000	16,000
Federal adjusted gross income	\$ 58,000		
Arizona gross income		\$ 58,000	
State X source income			\$ 16,000

Taxpayer A's Arizona income tax is computed as follows:

Arizona gross income	\$58,000
Less Arizona standard deduction ,	<7,200>
Less Arizona personal exemption ,	<4,200>
Arizona taxable income	\$46,600
Arizona tax	\$ 1,531

Taxpayer A's State X income tax is computed as follows:

Federal taxable income	\$54,000
less deductions ,	<12,000>
State X taxable income	\$42,000
Tax on income subject to tax	\$ 947

State X computes its nonresident tax as follows:

Tax from State X
Tax Table \$ 3,200

State X then prorates the amount from the State X tax table so that tax is imposed on only income derived from sources within State X. State X prorates the State X tax table tax as follows:

State X income \$16,000
federal adjusted gross income \$54,000

$$= .2963 \times \$3,200 = \$947$$

Credit Computation:

Based on the above facts, line 1 should indicate farm income as the income subject to tax in both states. Line 1, column b should show \$16,000 and in this case, line 1, column(c) would also show \$16,000. Lines 2 through 12 of the Arizona Form 309 should be completed as follows.

2. Arizona tax liability less any credits (except other state tax credit).	\$ 1,531	also subject to tax in Arizona (From line 1, Column (c)).	\$ 16,000
3. Income taxable by Arizona which is also subject to tax in State X (From line 1, Column(b)).	\$ 16,000	9. State X's income subject to tax.	\$ 16,000
4. Arizona income subject to tax.	\$ 58,000	10. Divide the amount on line 8 by the amount on line 9 (100% maximum).	100%
5. Divide the amount on line 3 by the amount on line 4 (100% maximum).	27.59%	11. Multiply the amount on line 7 by the percentage on line 10.	\$947
6. Multiply the amount on line 2 by the percent on line 5.	\$ 422	12. Other state or country tax credit. Enter the lesser of line 6 or line 11.	\$422
7. Income tax paid to State X.	\$ 947	* In this case, the income subject to tax in State X had to be determined. This amount was not specifically shown on State X's return, since State X computes its tax on the total income and then prorates that tax to reflect the tax attributable to income derived from sources within State X.	
8. Income taxable by State X which is			